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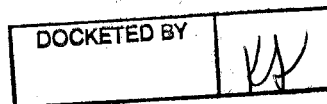
February 16, 2005

Arizona Corporation Commission
DOCKETED

FEB 16 2005

VIA HAND DELIVERY

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007



RE: COMMENTS ON PROPOSED RULEMAKING FOR THE ENVIRONMENTAL
PORTFOLIO STANDARD
RE- 00000C-00-0377, RE-00000C-05-0030 (In the Matter of the Notice of Proposed
Rule Amendment for the Environmental Portfolio Standard Rules)

Dear Commissioners:

The following comments of Chuck Skidmore are hereby submitted on behalf of the City of Scottsdale.

Introduction

The City of Scottsdale applauds the efforts of the Arizona Corporation Commission (ACC) and the stakeholders who participated in the workshops that led to the drafting of ACC Staff's recommendations.

The City has benefited from the existing Environmental Portfolio Standard (EPS) and sees considerable value in continuing and expanding it. Scottsdale and its citizens want not only to support, but also to be a leader in, the effort to develop new, sustainable, and affordable sources of energy. Scottsdale sees this as an economic development opportunity in addition to an appropriate hedge against ever increasing costs of all types associated with the burning of fossil fuels. Scottsdale has already taken a variety of steps down this path.

Since 1998, Scottsdale has had a Green Building Program that emphasizes the importance of energy efficient design. Scottsdale has partnered with local utilities to deploy renewable energy (RE) in the form of photovoltaic installations. The City is considering requiring that US Green Building Council Leadership in Energy and Environmental Design (LEED) building standards be used for all new municipal buildings of any appreciable size. A new senior center, currently under construction, is to be substantially supplied with energy from the sun. Expanding the EPS and adding provisions such as a distributed energy set-aside and a self-directed option will assist the City in further pursuing its environmental and economic goals.

Undertaking to transition from traditional fossil fuels to the various forms of RE encouraged by the ACC ordered EPS is a noble, laudable, and necessary task that will require a considerable investment by the people of Arizona. It is very important that everyone involved use best efforts to assure that the investment made is as productive as possible.

The City supports the establishment of both distributed generation and self-directed programs.

The City uses large quantities of electricity, natural gas, and a variety of liquid fuels in its mission to serve the citizens of Scottsdale. Depending upon what levels are set for the EPS surcharge, the City will contribute anywhere from tens of thousands of dollars to hundreds of thousands of dollars in EPS surcharges. Those dollars are obtained from Scottsdale's citizens in the form of sales taxes generated by economic activity in the City. The City has a fiduciary responsibility to use those tax dollars as effectively as possible for the benefit of its citizens.

Given the amount of money involved, the City sees an opportunity to use those surcharge funds to install RE systems on City buildings, thus reducing the electric bills of the buildings and helping to slow the rate of growth of electricity that must be supplied using traditional sources of energy. The City believes that it is possible to leverage the surcharge funds to install RE systems on City buildings as cost effectively as can be achieved by the utilities.

To the extent that the City, or any entity taking advantage of the self-directed option, can demonstrate satisfactorily to the ACC or its working group that it is possible to cost effectively use EPS surcharge funds to leverage RE systems on its buildings, the City agrees with Staff that these funds be channeled into self-directed programs and projects.

The burden of demonstrating the performance of those programs and projects that the City might undertake would lie solely with the City and the utility would necessarily either receive credit for every kWh generated or be relieved of responsibility for supplying the EPS mandated energy for the affected accounts. Any other environmental credits that might accrue from the installations and not be required by the EPS would belong to the City and could be used at its discretion to help offset the costs of the programs and projects.

The effort to achieve the overall goal of the ACC of reducing the impacts on the environment caused by the use of fossil fuels to generate electricity will be enhanced because the City will have the opportunity to enter into various arrangements that will result in even more installed RE capacity than could be achieved by the utilities using the surcharge funds. These arrangements can also result in additional funds being leveraged into the program, further augmenting the increase in RE. In addition, distributed RE systems located at the building where the energy is used, will mean that system losses usually suffered when transmitting energy over the utility transmission and distribution systems will be eliminated whenever the RE systems are generating power.

The City Believes the Escalator for the EPS should be increased

The first few years of the existing standard have resulted in an enormous increase, on a percentage basis, in the installed base of renewable technologies in Arizona. However, when the installed capacity, and resulting energy, is compared with the overall capacity and energy of the existing base of traditionally fueled generating plants, the current RE installed base is miniscule and, on a relative basis, growing even smaller.

One local utility has testified, at an ACC proceeding, that its retail sales of electrical energy have grown at a nominal rate of 5% per year in the recent past. The EPS has been growing at a rate of less than 1% per year.

ACC Staff has recommended that the EPS rules be modified so that after a 10-year ramp up from the current 1% level to a level of 5%, the standard would increase at the rate of 1% per year for an additional 10 years. The anticipated result will be that, by 2025, Arizonans will receive an estimated 10.5 billion kilowatt hours (kWh) of electrical energy from RE. It will truly be a remarkable achievement. **But will it be enough?** If ACC staff is correct in its assumed growth of retail energy sales of 3% per year, Arizonans will use an additional 31 billion kWh more in 2025 than they will in 2005. **Even though Arizona will have 15 times more RE capacity than it has today, the State will continue to increase its dependence on fossil fuels. The Environment will continue to degrade. Wealth generated in Arizona will continue to be used to import energy.**

While the City does not recommend a specific value for the EPS, it does ask: **if two of the purposes of the EPS, among others, are to improve the environment and reduce Arizona's dependence upon ever more costly fossil fuels, what level of commitment is required to achieve those goals?**

The City supports an EPS that includes all available technologies while acknowledging that solar energy is Arizona's best RE resource

The recommendations of Staff include certain restrictions and set-asides designed to encourage all feasible forms of RE and afford them an equal opportunity to compete for the limited market that the EPS creates. **While the City has no stake in any particular technology, it does note that the most abundant and ubiquitous form of energy available to all Arizonans is the sun.**

The City further notes that an even larger market than the one that would be created by the proposed 15% standard would logically create more opportunity, and make set asides less relevant and contentious. Nonetheless, due to the fact that solar is Arizona's most prominent renewable resource and also among the most expensive, the City supports special treatment for all solar technologies as a way to encourage their development and eventual cost reduction.

Conclusion

There will need to be a working group formed to formulate the implementation details of whatever rules the ACC may eventually promulgate. As it has throughout the history of the EPS the City will participate and continue to represent the best interests of Scottsdale and its citizens.

Thank you for your attention to this matter.

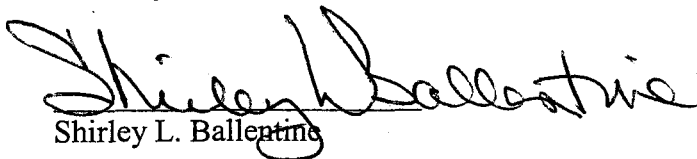
Sincerely,



Donna M. Bronski
Deputy City Attorney

DMB:slb

Original and thirteen copies of the foregoing filed with Docket Control this 16th day of February 2005.


Shirley L. Ballentine